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SUBJECT: OVERVIEW FOR MALAYSIA-US STRATEGIC TALKS (MUSST),  
AUGUST 11-12, 2009

Classified By: DCM Rob Rapson for reasons 1.4 (b and d).

## Summary and Introduction

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11. (C) The current transitional period in U.S.-Malaysia relations offers both new opportunities and challenges for the relationship. After four months in office, Prime Minister Najib Tun Razak is proving more pragmatic and action-oriented, and more inclined to move Malaysia away from Mahathir-era antagonism toward the West, than his predecessor, Abdullah Badawi. Najib has explicitly endorsed strengthened ties with the United States, and is more open to U.S.-Malaysia military engagement. The Malaysian military expects him to expand military relations, including weapons procurement. We see new opportunities to identify and work together on a broader range of shared foreign policy priorities. While Malaysia may be tempted to seek better U.S. relations largely through improved rhetoric, our challenge will be to translate words into deeds in priority areas for us such as non-proliferation and tangible contributions to international institutions such as the IAEA.

Two areas where we've seen some tangible progress are Malaysia's anti-piracy efforts in the Gulf and trafficking in persons in the wake of our Tier 3 designation of Malaysia in June. Domestically, Najib realizes that economic reforms are needed to keep Malaysia competitive. This in turn presents clear opportunities for our trade and investment agenda. Prospects for democratic reforms, however, are uncertain. While PM Najib has seen a recent rise in his popularity polls, he faces increasing pressures associated with a still contracting domestic economy, rising public expectations for better governance, and a resurgent political opposition. It is unclear how he will balance pressures for further reform with efforts to maintain the ruling party's tight control over state levers of power. This sets the stage for continued political discord, as evidenced by the fallout from the government's heavy crackdown last week on demonstrators protesting against the Internal Security Act.

## The Broader Relationship in Context

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12. (C) Robust trade and investment ties remain the solid foundation of our relationship with Malaysia, our 16th largest trading partner (bilateral trade totaled USD 44 billion in 2008). In addition, Malaysia values its defense relationship with the U.S. military, as evidenced most recently by the growing partnership between our coast guards.

The GOM has been an important partner on counterterrorism when it serves Malaysia's own security interests, and we enjoy expanding law enforcement cooperation. Our people-to-people ties build on decades of Malaysian students studying in America (5400 Malaysian students studied in the U.S. during in 2007-2008). The emergence of new administrations in both our countries provides expanded opportunities to pursue vigorous public outreach to often-skeptical Muslim Malay audiences. Given its biodiversity, we have included Malaysia in regional

environmental initiatives to protect rainforests and coral reefs. Carefully targeted foreign assistance helps us leverage our policy priorities.

#### Najib, Ministers Seek Better U.S.-Malaysia Ties

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13. (C) The POTUS-PM Najib phone call in late June, preceded by Foreign Minister Anifah,s meeting with Secretary Clinton in May, the first official visit to Washington by a Malaysian Foreign Minister in nearly eight years, imparted considerable momentum to improving U.S.-Malaysia ties. The PM and Anifah both signaled interest in deeper bilateral relations and reviewed policy priorities including non-proliferation, piracy, trafficking in persons, Middle East peace, aid to Afghanistan, and a POTUS visit to Malaysia. Anifah and Defense Minister Zahid Hamidi are new to the world stage and we expect Najib to exert more direct influence on foreign and defense policy than did his predecessor Abdullah. Compared with Abdullah, Najib has a more complete sense of international politics and Malaysia's place in the region and the world, and places significant priority on foreign relations beyond Malaysia,s traditional reference points of the Non-Aligned Movement (NAM) and the Organization of the Islamic Conference (OIC). Although it would be inapt to describe Najib as pro-West, the UK-educated Prime Minister readily recognizes the benefits to Malaysia of engaging the U.S., along with the emerging powers China and India, and of participating in international institutions.

14. (C) In meetings with the Ambassador and other U.S. officials, DefMin Zahid Hamidi has emphasized Malaysia's

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desire to strengthen our bilateral military relationship, Malaysia,s role in anti-piracy and UN peacekeeping, and Malaysia's potential assistance to Afghanistan. Zahid has expressed hope that a compromise, possibly involving reduced fees and some form of cost-sharing, could be achieved in the near-term regarding commercial port fees charged U.S. naval vessels. (Note: As of the date of this cable, the GOM had not formally responded to our overtures and queries regarding the port fee issue. End note) Zahid has indicated some concern with China,s activities in the South China Sea, but also encouraged broad U.S. engagement with China. In a meeting with Assistant Secretary of Defense Greggson at the Shangri-La dialogue in late May, Zahid thanked the U.S. for the advancements made possible through our 1206 program (e.g., radar installations in Sabah), and agreed in principle that Malaysia should increase its mil-mil cooperation in U.S.-led exercises by moving from being an observer to becoming an active participant.

#### Foreign Policy: Potential for More Meaningful Actions

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15. (C) While Malaysia,s NAM-centric foreign policy (which has led Malaysia to vote opposite the U.S. position on almost all important UN issues) is unlikely to change dramatically, prospects exist for identifying and working together on shared foreign policy priorities. Malaysia will be tempted to seek better relations with us largely through improved rhetoric and increased contacts. Our challenge is to elicit meaningful actions on key issues such as non-proliferation, Iran's nuclear program, trafficking in persons, free trade, and support for international institutions U.S. support for Malaysia joining the Somalia anti-piracy Contact Group was a useful start to moving Malaysia toward more engagement in multilateral security structures. Malaysia is a leading member of ASEAN, and could play a more positive role in Southeast Asian conflict resolution and ASEAN's approach to Burma to bring about democratic change in that country.

#### Defense Relationship

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¶6. (C) Military-to-military engagement has improved significantly over the last several years, as demonstrated by significant increases in U.S. Naval visits (26 in 2008 compared to 22 in 2007 and five in 2006) and professional exchanges, although the frequency of USN port calls recently has fallen as both sides work to resolve the pending port fees issue. The 25th U.S.-Malaysia Bilateral Training and Consultative Group (BITACG) meeting in May laid out detailed plans for further mil- mil cooperation , coordination, and training. After MUSST, a possible Malaysian Defense Minister visit to DC is also under discussion. Inter-agency engagement has also increased with the newly formed Malaysian Maritime Enforcement Agency (MMEA), which has broad maritime law enforcement, humanitarian, and security responsibilities similar to the U.S. Coast Guard. The Malaysian armed forces have prioritized security in the tri-border area shared with the Philippines and Indonesia. The U.S. is assisting with the provision of coastal radars and related systems, along with training through the NDAA 1206 program. Despite sensitivity to U.S. involvement in Sabah, military engagement for counter-terrorism is conducted by Special Operations Forces and has focused on close-quarter combat training, and maritime non-compliant boarding.

#### CT and Law Enforcement

¶7. (S) We continue to benefit from close counterterrorism and law enforcement cooperation. Early round-ups in 2001-2002 of scores of Jemaah Islamiyah (JI) suspects helped prevent terrorist attacks here, but Malaysian extremists maintain some capability to support JI operations elsewhere. Two Malaysians were among the 14 high-value U.S. detainees transferred to Guantanamo in 2006; Malaysia has a pending request for their return. Growing political pressure to do away with preventive detention laws will pose a long-term challenge to Malaysian law enforcement, which is overly reliant on an intelligence approach to CT and has yet to prosecute any terrorism cases. Malaysia has cooperated with Thailand regarding the insurgency in southern Thailand, but sees the problem mainly as an internal Thai political challenge. Malaysia has also supported the peace process between the Philippine Government and the MILF in the southern islands. Malaysia withdrew its contingent for the International Monitoring Team in Mindanao in 2008.

#### Global Financial Crisis and Economic Reforms

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¶8. (SBU) Malaysia's economy is in recession and its Central Bank does not expect a rebound until the fourth quarter of 2009, primarily due to a continuing decline in exports. The economy is expected to decline around five percent in 2009 and recover slowly in 2010. This year, Malaysia has issued two fiscal stimulus packages worth a total of USD 19 billion. The political stakes are high for Najib, who must ensure that the economy continues to provide growth and prosperity to a large middle class. Najib's recognition that economic reforms are needed to keep Malaysia competitive presents clear opportunities for our trade and investment agenda. Najib has announced reforms in the services sector to some race-based equity requirements and some liberalization in the financial services sector. Though of limited immediate economic impact, these reforms send a powerful message that ethnic Malays increasingly will have to compete on a level playing field with other races in Malaysia, and, perhaps over time, with foreign competitors. Malaysia continues to signal its desire to continue negotiating a bilateral Free Trade Agreement with us, but significant obstacles remain.

#### Political Discord at Home

¶9. (C) Najib came to power in the midst of domestic political discord that raises long-term questions regarding the continued dominance of his ruling UMNO party, in power since independence in 1957. He must contend with rising public expectations for better governance and a resurgent political opposition. Najib will find it difficult to identify and implement popular political reform measures while still maintaining UMNO's tight control over state levers of power. With a weakened ruling coalition, a maturing opposition, and a more sophisticated electorate with access to more information, Malaysia's polity is struggling to adjust to a new and more competitive political environment. The ongoing trial of opposition leader Anwar Ibrahim (adjourned until September 2), accused of sodomy in a politically-motivated prosecution, is generating political friction domestically and internationally. In recent weeks, the heavy crackdown on an opposition-sponsored demonstration against the ISA and the mysterious death of an opposition political aide while under questioning in a corruption probe have exacerbated political tensions.

TIP

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¶10. (SBU) On June 16, the U.S. released the 2009 Trafficking in Persons report, which classified Malaysia as a Tier 3 country, the lowest rating possible, for lack of significant efforts to combat human trafficking. Tier 3 carries with it the possibility of U.S. sanctions on non-humanitarian and non-trade related assistance; the USG can also opt to waive such sanction. We are urging Malaysia to take law enforcement actions under its comprehensive anti-trafficking law particularly in the areas of labor trafficking and trafficking of Burmese refugees. In the weeks following Malaysia's classification as Tier 3, the Government has taken constructive measures on a number of fronts to address the trafficking issue.

KEITH